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¶1. (SBU) Vietnam's deficit of human resources is now the most frequently cited challenge facing companies in southern Vietnam. This issue is shifting leverage from factory managers to workers, leading to more strikes in the first half of 2008 than in all of 2007, as well as contributing to 18 percent wage inflation since January. Weak local labor institutions (including most provincial branches of the Vietnam General Confederation of Labor and Ministry of Labor) put pressure on management to resolve labor disputes. Successful factory managers avoid strikes by devoting time and resources to understanding their workers needs and ensuring that local unions act as clear channels for communication. Additional transparency and training are needed, but the United States can also help by creating opportunities for non-governmental organization and civil society actors to educate workers, managers and regulators about their rights and obligations. End Summary.

## Foreign-owned Factories Pinched by Strikes

¶2. (SBU) U.S. investors and partner companies, especially in manufacturing, are being affected by labor unrest and unexpected demands for wage increases. According to one U.S. buyer, there were 544 labor actions in all of 2007 but 500 in the first half of 2008. The dispute resolution roles that Vietnam's labor law assigns to the Ministry of Labor (MOLISA) and the Vietnam General Confederation of Labor (VGCL) are rarely put into practice locally, so when workers strike it's up to employers to find a resolution. 73 percent of the strikes in 2007 were at foreign direct investment (FDI) companies and 83 percent were in Ho Chi Minh City (HCMC), and Binh Duong and Dong Nai provinces. Since FDI employs 500,000 workers in garment factories, foreign companies have significant exposure to and impact on Vietnam's labor markets.

¶3. (SBU) HCMC labor analysts believe that workers strike because the rising cost of living in southern Vietnam hits low-wage unskilled workers hardest; year-on-year inflation in September was 27.9 percent. They say that DOLISA and VGCL do try to create an environment for workers and managers to resolve difference, but in practice do little else. Workers often remain ignorant of their rights and obligations under the labor law and as a result adopt a "strike first" mentality.

¶4. (SBU) Earlier this year the strike first mentality cost one factory "one million dollars a day for 10 days, all over 30

cents per worker per day." Lack of an effective union meant that the company management did not have anyone to negotiate with, and leaders that eventually came forward did not represent the interests of the full group. Even after an initial agreement was reached, workers refused to return to work. Because of this type of experience, FDI managers call on the GVN to fully and consistently implement the Vietnam's 2006 amended Labor Law, which requires workers to go through an administrative and mediation process before going on strike.

## Foreign Strategies and Results

¶5. (SBU) In practice, successful companies are finding ways to work around the system to strengthen unions in their shops in order to make sure they understand their workers. In a few cases, factories do have strong and de facto independent unions that pay into Vietnam's VGCL union umbrella system but receive little or no support or direction from above.

¶6. (SBU) One Korean-invested garment producer in Dong Nai province employs nearly 10,000 workers at an average starting wage of 65 USD, just barely above Vietnam's minimum wage for that area. The company has a staff of up to ten ex-patriots human resource (HR) specialists working specifically on labor relations and strengthening the factories various shop unions. Through regular trainings, meetings and feedback channels, these HR specialists concentrate on enabling the unions to effectively convey the concerns of the workers to management, and to serve a channel for open dialogue. The manager of this factory says that his company ends up trying, with little effect, to help provincial DOLISA and VGCL play more than a superficial role. So far, the company's approach has paid off. Despite the low wages they have not had any strikes.

¶7. (SBU) Not all managers are this successful. A Taiwanese-invested company in Thay Ninh Province pays its 18,000 workers 90 USD, 43 percent more than the Korean company, and



well above minimum wage. This factory's human resource department processed paperwork but little else, and the manager seemed almost contemptuous of his workers saying "they earn more than anyone else around and they still strike." Earlier this year, workers walked out for several days before management was able to get a response to the question, "what do you want?" Unfortunately the response was attached to a rock and thrown at the office building. This strike was resolved later that week with another small increase in salary, but the manager expects more trouble in the future.

## Contrast with the Vietnamese Way

¶8. (SBU) Vietnamese companies say that strikes at FDI factories are completely understandable, because foreign managers do not involve workers in the management process. They emphasize that Vietnamese-owned enterprises accounted for just 27 percent of strikes in 2007. Vietnamese managers believe this is because the labor representatives in Vietnamese factories are much more powerful than in FDI factories. Vietnamese companies traditionally have institutionalized channels for communication, dialogue and dispute resolution, not only through the unions but also through the Party. A Vietnamese-owned factory's union leader often interacts with the factory's manager as an equal.

## Conclusion

¶9. (SBU) Since so much of Vietnam's export success is based on comparatively cheap labor, encouraging MOLISA and VGCL to play a constructive role in dispute resolution should be a priority for the GVN. Already, a few multinationals have decided they probably will not expand production in Vietnam because of the strikes. But since the vast majority of strikes happen at FDI factories, it has been easy for the GVN to remain sanguine about the problem. Individual companies are stepping up to fill the education vacuum and international, non-governmental and especially corporate social responsibility organizations are

beginning to play a larger role. The United States can help by encouraging the GVN to make space for these kinds of groups to teach managers best practices, help strengthen local unions and to build the capacity of MOLISA and VGCL. Our industry and government interlocutors agree; Vietnam's long-term economic competitiveness is at stake. End conclusion.

¶10. (U) This cable was coordinated with Embassy Hanoi.
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